TransCanada Power Marketing Ltd. Comments In DTE Docket 02-40 August 1, 2002

TransCanada Power Marketing appreciates the opportunity to provide brief comments to the Department in Docket DTE 02-40. By way of background, although best known for its gas pipeline assets, TransCanada serves as an electric generator with over 2000 MW of generation in its ownership or under its control as well as serves as an electric wholesaler and retailer throughout its areas of operations in Canada and the Northeastern U.S. In New England, TransCanada provides a portion of Massachusetts Electric's Standard Offer Supply, has previously provided default service, and serves retail load in every New England state except Vermont, which is not open to retail competition. Within NEPOOL, TransCanada lead the ultimately successful campaign to open the region to intra-day power imports, was the first to call for the elimination of the so-called "operable capability" market, ultimately accepted by FERC, and most recently lead efforts to provide full Installed Capability credit to interruptible loads (86th Amendment to the NEPOOL Agreement) and to institute reforms in the AGC market that provided proper opportunity cost compensation.

With respect to future procurement of default service, TransCanada recommends the Department follow a cautious and conservative path. Fuel markets, and consequently electric markets, have proven to be highly volatile. Credit concerns among power suppliers—including well known and dramatic insolvencies—give rise to serious counterparty risk issues. The idea that thousands of residential and small business customers will soon—or perhaps ever—be able to successfully navigate these challenges and many others without periodically incurring undue financial harm is not plausible. The utility backstop option in some form must remain to preserve the benefits of deregulated markets for these small customers.

With respect to that utility backstop service, we offer the following thoughts:

- 1. It can be successfully limited to residential and small commercial and industrial customers. Larger customers have the skill and resources to make the right choice for their business needs;
- 2. If the Department should select a retail model for the backstop, utilities must provide customer care, billing and administrative services, if desired by suppliers, at or near cost so that multiple competitors can bid to provide the electric service;
- 3. Artificial marketing adders and similar devices that presuppose some desired result should be rejected; and
- 4. The "smart buyer" approach where the utility exercises some discretion in its timing and term length for supply procurements can be highly advantageous to the small consumer and should be embraced by the Department.

On a somewhat separate note, key to successful electric competition in the region are the good faith efforts of the state's regulated utilities to help make it work not only in the region at the state level but also in the NEPOOL and FERC forums. Unfortunately, some of the state's largest utilities are presently seeking retroactive changes to competitive supplier Installed Capacity obligations at FERC—with multi-million dollar cost to those competitive suppliers—and further seek unwarranted capacity subsidies from competitive suppliers on a go-forward basis. The

FERC docket references for this matter are EL02-61 and EL02-70. We intend to fully document this issue to the Department and the Energy Office in the immediate future.

In closing, TransCanada seeks a backstop service for small consumers that enables them to receive similar benefits of competition available to larger, better-resourced customers. This is an achievable objective. In the process, we expect fair play from the regulated utilities.

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